

IRS News Release

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New Law Revamps IRS Offer in Compromise Program; 20% Up-Front Payment Required in Many Cases

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WASHINGTON — Under a new federal law, taxpayers submitting new offers in compromise must make a 20 percent nonrefundable, up-front payment in many cases, the Internal Revenue Service announced today.

The recently-enacted Tax Increase Prevention and Reconciliation Act of 2005 (TIPRA) made major changes to the offer in compromise (OIC) program, tightening the rules for lump-sum offers and periodic-payment offers. These changes become effective for all offers received by the IRS starting July 16, 2006.

An offer in compromise is an agreement between a taxpayer and the IRS that resolves the taxpayer's tax debt. The IRS has the authority to settle, or "compromise," federal tax liabilities by accepting less than full payment in certain circumstances.

Under the new law, taxpayers submitting requests for lump-sum OICs must include a payment equal to 20 percent of the offer amount. The payment is nonrefundable, that is, it will not be returned if the OIC request is later rejected. A lump-sum OIC means any offer of payments made in five or fewer installments.

Taxpayers submitting requests for periodic-payment OICs must include the first proposed installment payment with their application. A periodic payment OIC is any offer of payments made in six or more installments. The taxpayer is required to pay additional installments while the offer is being evaluated by the IRS. All installment payments are nonrefundable.

Under the new law, taxpayers qualifying as low-income or filing an offer based solely on doubt as to liability qualify for a waiver of the new partial payment requirements.

If the IRS cannot make a determination on an OIC within two years, then the offer will be deemed accepted. If a liability included in the offer amount is disputed in any court proceeding, that time period is omitted from calculating the two-year timeframe.

OIC requests are submitted using Form 656, Offer in Compromise. The form provides detailed instructions for completing an offer and includes all of the necessary financial forms. When submitting Form 656, taxpayers must include an application fee of \$150 unless they qualify for the low-income exemption or are filing a doubt-as-to-liability offer.

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A new version of Form 656, revised to reflect the new law, will be posted on IRS.gov in the next few weeks. In the meantime, taxpayers may continue to use the 2004 revision of the form.

Complete information on the entire collection process and the OIC program are on IRS.gov. Further details on the TIPRA changes can be found in Notice 2006-68, available now on the IRS Web site and scheduled to be published in Internal Revenue Bulletin 2006-31, dated July 31, 2006.